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Legislative Notice

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S. Con. Res. 27 – Concurrent Budget Resolution for Fiscal Year 1998

Calendar No. 55

Passed the Senate Budget Committee by 17-to-4 on May 19, 1997. No report was filed but a committee print was filed that contains the so-called “Annex” that clarifies the agreement reached between Congressional leaders and the President on May 2.

NOTEWORTHY

- The FY 1998 Budget Resolution is based on the bipartisan agreement reached between the majority in Congress and the President on May 2. It eliminates the federal budget deficit in 2002 by restraining the rate of growth of federal spending and allowing revenues to come into line with spending. [See attachment, listing Function Totals.]
- Included in the Committee print to the budget resolution will be the so-called “Annex,” clarifying the agreement reached between Congressional leaders and the President. Six budget functions are listed as priority functions: national defense; international affairs; natural resources and environment; transportation; education, training, employment and social services; and administration of justice. Plus, there are 13 “Protected Domestic Discretionary Priorities” that will be funded at the President’s requested level for FY 1998. Also included is a letter from the Senate Majority Leader and the House Speaker to the President regarding the tax provisions of the agreement.
- As a percentage of GDP, federal spending will decline to 18.9 percent in 2002 — the first time since 1974 that it has been below 20 percent.
- In the hope of getting a budget conference report completed prior to the upcoming recess, the Majority Leader is expected to ask for unanimous consent to waive some of the 50 hours allowed for consideration of the budget resolution. [See Floor Procedures, p. 6.] At press time, it was unclear whether the Democrats would agree to any time reduction.
- On May 16, the House Budget Committee reported H. Con. Res. 84 by a vote of 31-7. The resolution will go to the House floor Tuesday. Because of the limited differences expected between the two budget resolutions, a quick conference is anticipated.

BACKGROUND

The FY 1998 Budget Resolution fulfills the seven-year deficit elimination policy set forth in the first session of the 104th Congress by the new majority. In compliance with this timetable, the federal budget will be balanced in 2002, for the first time since 1969.

As Congress' blueprint for federal spending, the budget resolution sets the targets for both annually appropriated (discretionary) and mandatory spending, which is subject to permanent legislation. In order to achieve these targets, the budget resolution provides an overall allocation level for the Appropriations Committee — the so-called 602(a) allocation — and directs the authorizing committees of jurisdiction to make changes in permanent spending authority — the so-called reconciliation legislation.

The FY 1998 budget resolution incorporates the agreement the congressional majority reached with the President on May 2. It marks the third consecutive balanced budget resolution that the Senate will have passed. In contrast, while the President does not sign the budget resolution, the agreement that it incorporates marks the first balanced budget that President Clinton has ever endorsed.

Because the President does not sign the budget resolution, in past years there have been significant discrepancies between the budgets Congress passed and what actually was enacted into law. Last year, the FY 1997 budget resolution provided for three reconciliation bills, to be sent to the President one by one, after he signed the preceding one. President Clinton vetoed the first of these reconciliation bills (containing the budget resolution's required Medicaid and welfare reforms). The first reconciliation bill was then resubmitted without Medicaid reform and signed by the President.

The FY 1996 process was even more torturous. The FY 1996 appropriations process was not completed until well into calendar year 1996 when President Clinton finally signed an omnibus appropriations bill, after having vetoed four appropriations bills and a continuing resolution the year before. The Balanced Budget Act, which incorporated the results of the FY 1996 reconciliation process, was also vetoed by President Clinton on December 6, 1995.

Despite prolonged negotiations with the White House to reach a balanced budget deal, the White House was unwilling until the recent agreement with the congressional majority to go further than to agree to the goal of a balanced budget in 2002 using objective CBO numbers. Regarding the President's FY 1998 budget which he submitted to Congress in February, the Congressional Budget Office (CBO) stated: "*CBO estimates that a deficit of \$69 billion would remain in 2002 under the President's basic policy proposals.*" The White House's formal FY 1997 budget was also estimated "under CBO's more cautious economic and technical assumptions" to result in a deficit of about \$80 billion by 2002. The White House has claimed technical balance in 2002 on both occasions, but it has done so by utilizing two advantageous,

but faulty mechanisms. First, it relied on gimmicks and “triggers,” such as one-time savings, or discontinuing the tax cuts. Second, the budget receives an “unearned” credit from the “fiscal dividend” of positive economic assumptions that would result from a balanced budget (despite the fact that the Clinton budget does not get to balance) — a dividend CBO built into the baseline on the assumption that only balanced budgets would be submitted.

HIGHLIGHTS

[For further information on the FY 1998 Budget Resolution, consult RPC papers: “Congress Strikes Out the Deficit,” 5/19/97, and “Republicans Keep Their Promise: Balancing the Budget and Reducing Taxes,” 5/2/97.]

- Congress’ FY 1998 budget achieves real balance in 2002. It does so without cutting — but only slowing the rate of increase — of spending for such entitlement programs as Medicare and Medicaid.
- Social Security is not affected by programmatic changes. Nor is there any legislative change in the way that the CPI (by which cost-of-living increases are determined) would be calculated.
- Overall discretionary spending is below the CBO baseline projection and above the FY 1997 level over the next five years, as follows: Relative to current spending projections that include inflation, nondefense discretionary (NDD) spending is trimmed by \$61 billion and defense spending falls by \$77 billion. Relative to the FY 1997 levels, NDD is \$34 billion more and defense is increased \$21 billion.
- The FY 1998 budget resolution provides for two reconciliation bills to implement proposed changes in mandatory spending programs and tax law. The first bill would incorporate the mandatory spending changes which the authorizing committees must report to the Budget Committee by June 20. The second bill would contain the tax proposals, which the Finance Committee would have to report to the Budget Committee by June 27. The House Budget Committee will receive its spending and tax bills on June 12 and 13 respectively. In the Senate, the spending reduction bill would go to floor during the last week before the July 4 recess, and the tax bill would go to the floor right after the July 4 recess. Both conference reports are to be completed prior to the August recess.
- Congress’ balanced budget resolution “cuts” two things: Washington’s cost of borrowing and Washington’s deficit.
- **Tax Provisions:** The resolution accommodates a gross \$135 billion and a net \$85 billion tax cut over five years within its totals; over ten years, the net tax cut will total \$250

billion. The bipartisan budget agreement presumes four elements will be accommodated within these totals: a \$500/child tax credit, an estate tax cut, a capital gains tax cut, and tax cuts benefitting education.

- **Health:** The budget resolution will maintain Medicare's rate of growth at more than twice the rate of projected inflation (projected savings of \$115 billion) in order to ensure the Part A trust fund's solvency at least through 2007. Without this action, the recent Medicare trustees' report predicts that the Part A trust fund will be bankrupt in 2001. The resolution's Part A target would allow spending per beneficiary to grow from \$5,480 in 1997 to \$6,911 in 2002 and for overall Medicare spending to increase 28 percent — from \$209 billion in 1997 to \$280 billion in 2002. In addition, \$16 billion over five years is provided for insuring uninsured children.
- **Income Security:** The resolution assumes \$14.2 billion in addbacks to last year's welfare reform proposal.
- **Social Security:** The resolution contains no legislative change in Social Security.
- **Budget Enforcement Provisions:** Discretionary caps will be maintained through 2002 with a 60-vote point of order applying to any budget resolutions and appropriations bills exceeding these caps. So-called "firewalls" separating defense and non-defense discretionary spending will also be maintained through 1999. This means that spending or savings from one category could not be offset or transferred respectively in appropriations bills, without waiving a 60-vote point of order. The agreement also stipulates that the Budget Act's Pay-As-You-Go provisions will be extended to 2002.
- **Debt Limit Increase:** A Debt Limit increase estimated to be sufficient to extend the deadline until December 15, 1999 is included.

Six Priority Functions

In the "Annex" to the agreement reached between Congressional leaders and the President, there are listed six priority functions (the budget contains 20 total spending categories called "functions" — see attachment) in the budget as follows:

- **Defense:** Discretionary spending for DOD is set at \$268.2 billion in budget authority and \$266 billion in outlays for FY 1998. This is respectively \$1 billion and \$2.6 billion higher than the President's request.
- **International Affairs:** The resolution proposes an increase from \$15.3 billion in budget authority (BA) and \$14.5 billion in outlays (OL) in 1997 to \$15.9 billion in BA and \$14.6 billion in OL in FY 1998.

- **Natural Resources and the Environment:** Discretionary spending on the EPA would remain at the FY 1997 outlay levels (\$22.4 billion) but would increase from \$22.2 billion in BA to \$23.9 billion in FY 1998.
- **Transportation:** Over five years assumes \$8.6 billion in OL above the FY 1997 level and \$8.7 billion in OL above the President's request. A deficit-neutral mechanism allowing for additional funding in the future is also included.
- **Education:** Funding will increase from FY 1997's \$54.2 billion (BA) and \$50.5 billion (OL) to \$60 billion (BA) and \$56.1 billion (OL) in 1998. The agreement reached between Congress and the President calls for reducing student loan spending \$1.76 billion over five years. No assumption in the agreement will increase costs to students, reduce benefits, or limit access to student loans.
- **Justice:** Spending for federal law enforcement activities would increase from \$23.5 billion (BA) and \$20.7 billion (OL) in 1997 to \$24.8 billion (BA) and \$22.6 billion (OL) in 1998.

Amendments Adopted in the Budget Committee

The following Sense of the Senate amendments were adopted during committee markup (all but the Conrad amendment were adopted on a voice vote):

Feingold: That a report be made by the Quadrennial Defense Review about the policies behind some of the decreased spending estimates contained therein.

Murray: That there be no per capita cap on Medicaid spending.

Snowe: That any additional estimated revenues that are determined to occur during this agreement be devoted to deficit reduction.

Bond-Durbin: That a portion of the \$16 billion set-aside for insuring uninsured children be used to immediately give full deductibility to the self-employed.

Grams: For fair treatment of rural areas in devising the Medicare reimbursement formula.

Durbin: Regarding Baltic states.

Smith, G: That a commission on higher education costs ensure that new education proposals do not simply increase the cost of education.

Nickles: That Administration efforts to reduce recently reported Earned Income Credit fraud and abuse are insufficient and that the President should report to Congress proposals to significantly reduce the level of fraud in this program.

Nickles: That all savings from Medicare Part B be credited to Medicare Part A trust fund — creating a “lock box” for savings that will increase the life of the Part A trust fund.

Conrad: That Congress and the President should continue working on structural reform in entitlements, specifically to adopt a correct CPI measure. Adopted 17-3.

FLOOR PROCEDURES

Under the Budget Act of 1974, as amended, a budget resolution is a privileged piece of legislation, as outlined below. It is not subject to filibuster and debate time is limited to 50 hours, equally divided. However, this does not mean that Republicans have 25 hours for debate and the offering of amendments. As time is used on debate or amendments, remaining time is equally divided as debate proceeds. In addition, votes do not count against this time limit, nor do quorum calls just prior to votes. [For an explanation of Budget Act points of order, see *Riddick's Senate Procedure*, revised in 1992, pp. 615-618.]

- Amendments to the budget resolution must be germane; otherwise, a point of order lies against the amendment, and 60 votes are required to waive the point of order. Germane amendments are those which:
 - **strike; increase or decrease numbers; add language which restricts some power in the resolution; or, express the sense of the Senate or Congress about matters within the Budget Committee's jurisdiction.**
- Debate on first-degree amendments is limited to two hours, one hour to proponents and one hour to opponents. Debate on second-degree amendments is limited to one hour, 30 minutes per side. All debate time on a first-degree amendment must be used or yielded back before a second-degree amendment can be offered.
- No debate is allowed on a point of order made against any amendment under the Budget Act. Instead, a motion to waive the Budget Act must be made. Debate on any motion to waive a point of order is limited to one hour equally divided.
- Amendments can be filed at any time. Filing an amendment will protect Senators' rights to demand recorded votes, even when all debate time is exhausted. Amendments to the budget resolution on which a recorded vote must be conducted may continue to be brought to the desk after debate is concluded, but no debate or any time for an explanation of any further amendment would be allowed.

POSSIBLE AMENDMENTS

Kennedy/Hatch. Insure uninsured children with revenues from increased tobacco tax.

Gregg. To move \$16 billion for uninsured children from mandatory to discretionary.

Allard. To reduce discretionary spending by an amount equal to any shortfall in revenues below projections in the resolution.

Allard. Sense of the Senate that, after 2002, revenues must exceed outlays by at least 1 percent, and that excess amount be dedicated to debt reduction.

Allard. Sense of the Senate to encourage MSAs.

Warner/Baucus. Increase transportation spending.

Mack. Increase funding for NIH, with offset.

Hollings. Strike the President's initiatives for increased spending and the tax cuts. (Failed in Budget Committee on a voice vote.)

Murray. Sense of the Senate re funding for teacher technology training in Function 500. (Failed in committee, 10-11.)

Murray. Sense of the Senate re. Headstart and other child training. (Failed in committee, 10-11.)

Murray. Exempt domestic violence victims from the work requirements of the welfare reform law.

Wyden. Remove firewalls between defense and nondefense discretionary spending and reduce defense spending levels to those of FY 1997. (Failed in committee, 6-14.)

Bond. Sense of the Senate linking Highway Trust Fund revenue receipts to transportation spending.

Bond. Sense of the Senate regarding Medicaid Disproportionate Share Hospitals.

Gramm. Three amendments (subjects not known).

Other Democratic amendments are anticipated, but not known at press time. Issues may include FEC funding, flex-time, and school construction, among others.

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[See attachment, which lists function totals, provided by Senate Budget Committee.]

1998 Budget Resolution

Function Totals
(Dollars in billions)

		1997	1998	1999	2000	2001	2002
050: National Defense.....	BA	264.9	268.2	270.8	274.8	281.3	289.1
	OT	266.6	266	265.8	268.4	270.1	272.6
150: International Affairs.....	BA	15.3	15.9	14.9	15.8	16.1	16.4
	OT	14.5	14.6	14.6	15	14.8	14.8
250: Science, Space and Technology.....	BA	16.7	16.2	16.2	15.9	15.8	15.6
	OT	17	16.9	16.5	16	15.9	15.7
270: Energy.....	BA	2.6	3.1	3.5	3.2	2.9	2.8
	OT	1.9	2.2	2.4	2.3	2	1.9
300: Natural Resources and Environment.....	BA	22.2	23.9	23.2	22.6	22.2	22.1
	OT	22.4	22.4	22.7	23	22.7	22.3
350: Agriculture.....	BA	11.8	13.1	12.8	12.2	11	10.7
	OT	9.9	11.9	11.3	10.7	9.5	9.1
370: Commerce and Housing Credit:							
On-budget.....	BA	4.6	6.6	11.1	15.2	16.1	16.7
	OT	-11	-0.9	4.3	9.8	12.1	12.5
Off-budget.....	BA	1.4	2.7	-1	-1.3	-0.5	0.2
	OT	1.4	2.7	-1	-1.3	-0.5	0.2
Total.....	BA	6	9.3	10.1	13.9	15.6	16.9
	OT	-9.6	1.8	3.3	8.5	11.6	12.7

		1997	1998	1999	2000	2001	2002
400: Transportation.....	BA	43.9	44.6	46.6	47.1	48.1	49.2
	OT	39.5	40.9	41.3	41.4	41.3	41.2
450: Community and Regional Development.....	BA	10.2	8.8	8.5	7.8	7.8	7.8
	OT	12.1	10.4	10.9	11	11.4	8.4
500: Education, Training, Employment and Social Services	BA	54.2	60	60.5	61.7	63	63.3
	OT	50.5	56.1	59.3	60.7	61.9	62.3
550: Health.....	BA	125.3	137.8	144.9	154	163.4	172.1
	OT	127.4	137.8	144.9	153.9	163.1	171.7
570: Medicare.....	BA	190.8	201.6	212.1	225.5	239.6	251.5
	OT	191.3	201.8	211.5	225.5	238.8	250.8
600: Income Security.....	BA	228.8	239	254.1	269.6	275.1	286.9
	OT	237.8	247.8	258.1	268.2	277.3	285.2
650: Social Security:							
On-budget.....	BA	11	11.4	12.1	12.8	13	14.4
	OT	11	11.5	12.2	12.9	13	14.4
Off-budget.....	BA	352.1	369.4	387.3	406.6	427.1	449.1
	OT	355.4	372.6	390.6	409.9	430.9	452.4
Total.....	BA	363.1	380.8	399.4	419.4	440.1	463.5
	OT	366.4	384.1	402.8	422.8	443.9	466.8
700: Veterans Benefits.....	BA	39.1	40.5	41.7	42	42.4	42.6
	OT	39.4	41.3	41.9	42.2	42.5	42.7
750: Administration of Justice.....	BA	23.5	24.8	25.1	24.2	24.4	24.9
	OT	20.7	22.6	24.5	25.2	25.9	24.9

		1997	1998	1999	2000	2001	2002
800: General Government.....	BA	14	14.7	14.4	14	13.7	13.1
	OT	13.9	14	14.4	14.7	14.1	13.1
900: Net Interest:							
On-budget.....	BA	291.1	296.5	304.6	304.9	303.7	303.8
	OT	291.1	296.5	304.6	304.9	303.7	303.8
Off-budget.....	BA	-43.5	-48	-52.5	-57.2	-61.9	-66.9
	OT	-43.5	-48	-52.5	-57.2	-61.9	-66.9
Total.....	BA	247.6	248.5	252.1	247.7	241.8	236.9
	OT	247.6	248.5	252.1	247.7	241.8	236.9
920: Allowances.....	BA	0	0	0	0	0	0
	OT	0	0	0	0	0	0
950: Undistributed Offsetting Receipts:							
On-budget.....	BA	-41	-41.8	-36.9	-36.9	-39.2	-51.1
	OT	-41	-41.8	-36.9	-36.9	-39.2	-51.1
Off-budget.....	BA	-6.5	-7	-7.5	-9.1	-10.9	-13
	OT	-6.5	-7	-7.5	-9.1	-10.9	-13
Total.....	BA	-47.5	-48.8	-44.4	-46	-50.1	-64.1
	OT	-47.5	-48.8	-44.4	-46	-50.1	-64.1

		1997	1998	1999	2000	2001	2002
Total Spending:							
On-budget.....	BA	1329	1384.9	1440.2	1486.4	1520.4	1551.9
	OT	1315	1372	1424.3	1468.9	1500.9	1516.3
Off-budget.....	BA	303.5	317.1	326.3	339	353.8	369.4
	OT	306.8	320.3	329.6	342.3	357.6	372.7
Total.....	BA	1632.5	1702	1766.5	1825.4	1874.2	1921.3
	OT	1621.8	1692.3	1753.9	1811.2	1858.5	1889
Revenues:							
On-budget.....		1166.9	1199	1241.9	1285.6	1343.6	1407.6
Off-budget.....		388	402.8	422.3	442.6	461.6	482.8
Total.....		1554.9	1601.8	1664.2	1728.2	1805.2	1890.4
Deficit:							
On-budget.....		-148.1	-173	-182.4	-183.3	-157.3	-108.7
Off-budget.....		81.2	82.5	92.7	100.3	104	110.1
Total.....		-66.9	-90.5	-89.7	-83	-53.3	1.4